



OFFICE OF THE STATE AUDITOR

Performance Audit Division Update

Bond Monitoring Program – Mississippi Beef Processors #1, June 4, 2004

Overview

Cattle producers have witnessed a continuing series of closures of federally inspected cow slaughter plants over the past decade. The most recent closing of the Montgomery, Alabama facility renewed concerns among Mississippi producers regarding the competitiveness of Mississippi beef and the availability of nearby processing plants. Today, the most reasonable options for producers are located in Augusta, Georgia and Palestine, Texas. These concerns led cattle producers to request legislative members examine the feasibility of locating a cow slaughter facility in Mississippi.

As a result of a feasibility study conducted by Mississippi State University (MSU), state agencies and officials concluded that the public interest would be served by supporting a facility located in our state. Therefore, the purpose of the project became the design and construction of a state-of-the-art beef processing facility by Mississippi Beef Processors, LLC (MBP).

Project Goals

This project focuses on the construction of a beef processing plant which will have the capacity to process at least 1,000 head of cattle per day and, according to estimates, create over 400 new jobs. Beef processing plants must operate as efficiently as possible to achieve a profit in an industry where profitability margins are thin. Supporters of the program believe experience in the industry and an existing market should prove beneficial to the viability of the company.

An additional positive impact on the profitability of the company is this facility would be more efficient than older facilities. Due to the sheer volume of beef that can be produced, the plant may be able to prepare partially cooked products, ready-to-serve products, or compete for contracts such as those for the federal school lunch program.



Financial Requirements

The initial cost estimate of \$26,000,000, which was originally provided to the Mississippi Land, Water and Timber Board, escalated rapidly. To maintain the viability of the project, the Board increased funding to a guaranteed maximum cost of the project of \$43,395,134.

Funding Sources

Funding Source	Amount
LWT Grant	5,000,000
LWT – Contract Facilities Group	3,547,974
Loan - Bank	34,847,160
Total	43,395,134

Funding Source	Purpose	Amount
CDBG Grant	Wastewater	2,500,000

Funding Source	Purpose	Amount
Small Municipalities Grant	Gas Pipeline	250,000
ARC Grant	Gas Pipeline	500,000
USDA Loan	Gas Pipeline	1,765,200
Total		2,415,200

Bank Funding	Initial	Current
Operating Line - Bank	6,500,000	6,500,000
Community Bank	21,000,000	34,847,160
ELS Financial	0	4,000,000
Total		45,347,160

Profitability Challenges

It should be understood that state involvement in funding projects like MBP is not without certain risks. Price volatility in the cattle market means that there are no guarantees that a project like this, no matter how well planned and managed, will necessarily result in a viable long-term activity. While perceived public benefits may justify the State subsidizing a large-scale processing facility to protect State beef supplies, these risks are real and must be fully understood and managed.

In an industry with a historically low profit margin, attention to issues such as product acquisition cost, market supply and demand, and pricing structure is critical to success. Small fluctuations in any or all of these factors could prove the difference between handsome profits and disastrous losses. Losses could result in loss of taxpayer supported grant monies as well as State loan guarantees.

A ten percent reduction, for example, in the number of cattle processed daily, the cost of cattle, and the sale price for meat and by-products would mean the difference, at the

end of the first full year of operation, between a profit of several million dollars and a multi-million dollar loss. The State is banking on MBP to consistently and systematically analyze and evaluate these factors to respond appropriately to market changes when they occur. Contingency planning may hold a key to anticipating the effects of a catastrophic occurrence, an unanticipated downturn in prices, or an unexpected upturn in costs.

Project Update

After an initial meeting, held in October 2000 in Oakland, Mississippi, there were additional meetings of policy makers, an evaluation of the economics of a cow slaughter facility by MSU, and finally, a commitment by the State to providing a 100% guarantee for a potential lender.

As construction progressed, MBP began to experience delays and cost overruns. These experiences led to hiring a contractor to review the project and determine the total cost to build a facility. In addition, the facility had to meet the estimates given and comply with requirements of the targeted buyers of the product. Findings of the contractor led to an increase in funding level for the project.

Potential energy concerns including the installation of a propane air mixer system to convert propane into a natural gas state for use until a natural gas pipeline is complete have been addressed.

During the final phase of construction, the ability to plan, schedule, and coordinate activities will require the attention and dedication of all involved parties.

Since the award of additional funding, the project is scheduled with an estimated date of June 12, 2004 to begin the testing phase.